CIVIL SERVICE SUPERANNUATION FUND

ANNUAL REPORT

2000/2001

102-04739/

To His Honour
the Honourable J. Leonce Bernard

May it please your Honour:

In accordance with section 6 of the *Civil Service Superannuation Act*. I am pleased to present to you the Annual Report of the Province of Prince Edward Island Civil Service Superannuation Fund, for the fiscal year ended March 31, 2001.

Respectfully submitted
Your Obedient Servant,

Patricia J. Mella,
Provincial Treasurer

Table of Contents

	Page
Introduction	1
Fund Description and Administration	1
I. Description	
II. Administration	
Highlights	3
Administrative Advisory Committee	4
Investment Advisory Committee	4
Auditor's Report	
Audited Financial Statements for 2000/2001	

Introduction

The Civil Service Superannuation Fund (the Fund) was established in 1945 to provide retirement allowances to all full-time civil service retirees, and to the dependents of deceased superannuates, in accordance with the *Civil Service Superannuation Act* (the Act).

Fund Description and Administration

DESCRIPTION

The Civil Service Superannuation Fund is a contributory defined benefit pension plan financed by equal contributions from participating employers and employees, and by investment earnings from the Master Trust Investment Fund. The Civil Service Superannuation Plan and the Canada Pension Plan are integrated when a superannuate is 65. In 2000/01 members of the Plan contributed 8.75% of their first $3,500 (CPP's basic exemption threshold) of pensionable income, 6.95% on earnings from $3,501 to $37,600 (CPP's Yearly Maximum Pensionable Earnings for 2000), and 8.75% of their salary in excess of the YMPE.

Normal Retirement Pension - a monthly pension is payable for life to a member who has attained the age of 60 with 5 years of pensionable service. The benefit is calculated as 2.0% for each year of pensionable service times the average of the three highest years of pensionable earnings, to a maximum of 35 years. Please note that the 2% benefit is comprised of 1.3% life-time benefit and a bridge benefit of 0.7% from the date of retirement to age 65.

Early Retirement - a member can opt for an early retirement pension benefit at age 55. In these cases, the pension amount is reduced by 1/4 of 1% for each month prior to age 60 but no earlier than age 55. For those members with a minimum age of 55 and 30 years of pensionable service, the above penalty is waived.

Inflation Protection - pensions are increased to the Consumer Price Index to a maximum of 6% on the 1st day of April of each year.

Benefits on Termination - a deferred pension for vested members or a refund of contributions plus interest for non-vested employees are options available to members on termination.

ADMINISTRATION

Administration of the Fund is assigned to the Employee Benefits Section, of the Employee Relations Division, of the PEI Public Service Commission. The Fund's assets are managed independently by professional fund managers. Diagram 1 shows the Fund balance from 1996 to 2001. The balance of the Fund in 2001 was approximately $392 million, up from $374 million in 2000.

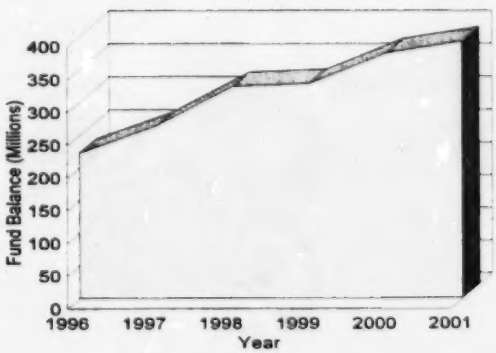


Diagram 1
CSSF Fund Balance

Fund Description and Administration *(continued)*

Employers - There are nineteen different employers participating in the CSSF, with a total of approximately 2,900 employees. The Province of PEI is the largest employer with 1,950 contributors, the 5 Health Regions have a combined total of 600 contributors, 2 Insurance Companies contribute for 150 employees on long term disability claims , and the remaining 200 contributors are employed with eleven other Agencies. The number of contributors to the fund, as at March 31 of the given years, are displayed in Diagram 4.

Contributions - Regular contributions are made to the Fund via payroll deductions. Other contributions include special payments from the Province (see below), payments for prior service, made by direct payment or by payroll deduction, and transfers in from other plans via reciprocal agreements. Diagram 2 depicts regular employer and employee contributions made to the fund by year as well as the special payments made annually by the Province. In 2001, the regular contributions from both the employer and employee combined, were approximately $16.2 million.

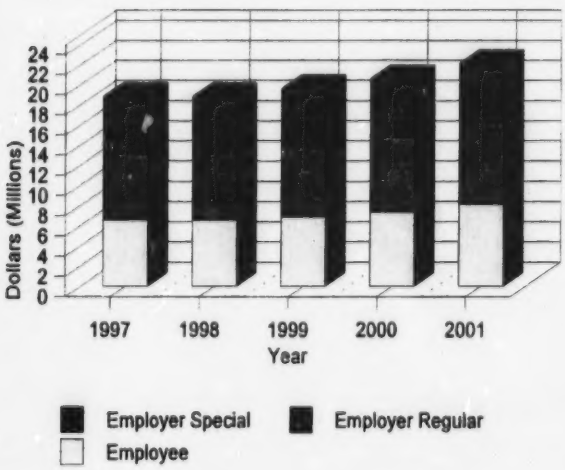


Diagram 2
Contributions and Special Payments

Special Payments - In 1994, Government committed to a ten year series of payments to help address the unfunded status of the Plan. As of April 1, 2000, special payments with interest made to the Fund totalled $34.95 million. Four remaining special payments of $ 5.93 million are to be paid into the fund on April 1 of each fiscal year beginning April 1,2001 and ending April 1, 2004.

Pension Payments - Annual pension payments increased from $13,217,190 in 1996 to $15,773,982 in 2001. This is shown in Diagram 3. The respective average number of persons receiving pension increased from 1,157 in 1996 to 1,292 in 2001.The number of pensioners are depicted in Diagram 4.

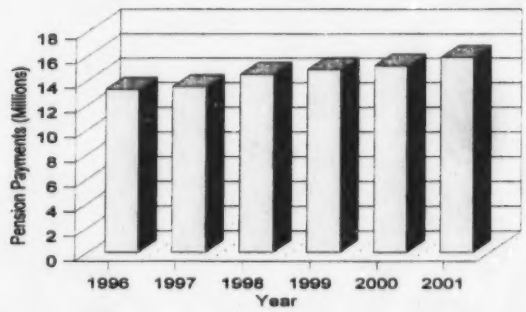


Diagram 3
Pension Payments

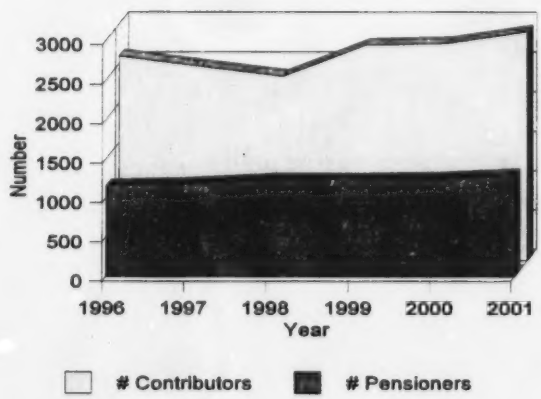


Diagram 4
Contributors vs Pensioners

Actuarial Requirement - Federal Legislation requires that an actuarial valuation be performed once every three years. Actuarial valuation reports require best estimate assumptions about future events to determine the actual value of Fund assets and liabilities. The most recent actuarial valuation was completed as of April 1, 1999. It is estimated that the unfunded liability at March 31, 2001 stands at $43.8 million, after taking into account the present value of the special payments noted earlier.

Highlights For 2000/01

Act / Regulations - the Civil Service Superannuation Act and regulations (CSSA) were amended as follows:

1) September, 2000 - the CSSA adopted an early retirement provision which provides unreduced pensions for those members who have a minimum of 30 years pensionable service and have a minimum age of 55 years

2) August, 2000 - the CSSA adopted Act amendments and regulations to provide for the division of pension assets upon marriage breakdown

Other Initiatives

1) August, 2000 - the CSSA entered into a new multi-lateral Reciprocal Transfer Agreement between the Civil Service Pension Plans for the Atlantic Provinces. This agreement is based on actuarial values as opposed to the old agreement which was based on contributions and interest.

2) January, 2001 - 150 new contributors joined the CSSA. This increase was the result of the wind-up of the Part-time pension Plan. The assets and liabilities of 150 active contributors and 350 deferred members were approved to be transferred to the CSSA.

3) the Administrative group continued to work on the implementing a new Pension Administration System. When the system is fully implemented, the Plan Administrators will be able to produce annual pension statements and offer significantly faster turn around times on pension requests.

Investment Management - The largest increase to the Civil Service Superannuation Fund comes from investment income. These investments are managed by the Province of Prince Edward Island Master Trust. The Civil Service Superannuation Fund (CSSF), MLA Pension Funds and the Teachers' Superannuation Fund participate in the Master Trust. In 2001 approximately 59.2% of the funds in the Master Trust were assets of the CSSF. The average rate of return of the Master Trust in 2001 was (2.9%).

The Fiscal Management Division of the Department of the Provincial Treasury provide investment management support for the Province of Prince Edward Island Master Trust.

Fund Managers - Responsible for the Fund's investments as at March 31, 2001 were :

1) Sceptre Investment Counsel Limited;
2) Beutel Goodman & Company Ltd;
3) McLean Budden Limited;
4) Newcastle Capital Management Inc;
5) Templeton Management Limited.

Increase in Fund Assets - during 2000/01 there was a net contribution to fund assets of $17,653,596.

Table 1 shows the total increases in assets, by source, which totalled $36,400,725 along with the percentage each source is of the total increase.

Table 2 shows the decreases, which totalled $18,747,129.

Table 1
Increase in Assets

Type	Amount	%
Employer Contributions	$8,081,918	22%
Employee Contributions	$ 8,081,918	22%
Investment Income	$ 17,540,207	48%
Special Payment	$ 5,926,605	16%
Market Value Increase/Decrease	$ (6,281,258)	-16%
Other	$ 3,051,335	8%
TOTAL	$ 36,400,725	100%

Table 2
Decrease in Assets

Type	Amount	%
Benefits Paid	$ 15,773,982	84%
Transfers	$ 1,428,526	8%
Administration	$ 197,744	1%
Investment Management Fees	$ 1,142,176	6%
Refunds	$ 204,701	1%
TOTAL	$ 18,747,129	100%

Administrative Advisory Committee

The Administrative Advisory Committee advises the Provincial Treasurer on administrative pension issues and provides a forum for the purposes of reviewing issues which may arise in the administering of the plan. This forum permits open consultation on matters relating to the *Act*.

The six member committee is made up of representatives from the following:

2 - Union of Public Sector Employees;
1 - Provincial Treasury;
1 - Public Service Commission;
1 - Health and Social Services;
1 - Secretary to Management Board or delegate

Master Trust Investment Advisory Committee

The Master Trust Investment Advisory Committee provides advice to the Provincial Treasurer in order to protect the principal assets of the Master Trust; monitor costs; make recommendations on investment fund asset mix; review performance standards of the investment fund and their respective fund managers; and to ensure compliance with both federal and provincial requirements relating to ownership of foreign equities. The committee is comprised of a Chairperson, along with representatives from the following: 3 - Prince Edward Island Teachers' Federation; 5 - Provincial Government;
2 - Union of Public Sector Employees; and
1 - Member of the Legislative Assembly.

Audit Requirement

In accordance with section 13, of the *Audit Act*, the financial statements have been examined by the Office of the Auditor General whose report is included in this annual report.

AUDITOR GENERAL

CHARLOTTETOWN

PRINCE EDWARD ISLAND

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

FINANCIAL STATEMENTS

MARCH 31, 2001

AUDITOR GENERAL

CHARLOTTETOWN

PRINCE EDWARD ISLAND

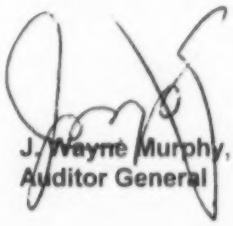
AUDITOR'S REPORT

Honourable Patricia J. Mella
Provincial Treasurer
Province of Prince Edward Island

I have audited the statement of net assets available for benefits of the Civil Service Superannuation Fund as at March 31, 2001 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Provincial Treasurer. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2001 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.



J. Wayne Murphy, FCA
Auditor General

Charlottetown, Prince Edward Island
August 27, 2001

STATEMENT 1

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

AS AT MARCH 31, 2001

ASSETS

	2001	2000
Cash	$ 577,893	$ 387,458
Receivables		
Contributions receivable - employees	291,658	248,810
Contributions receivable - employers	727,233	505,738
Other	-	6,786
	1,596,784	1,148,792
Investments (Notes 2b, 3)		
Province of Prince Edward Island Master Trust	390,551,887	373,107,509
Total assets	$392,148,671	$374,256,301

LIABILITIES

Accounts payable	$ 503,825	$ 265,051
NET ASSETS AVAILABLE FOR BENEFITS	$391,644,846	$373,991,250

(The accompanying notes are an integral part of these financial statements.)

STATEMENT 2

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEAR ENDED MARCH 31, 2001

	2001	2000
INCREASE IN ASSETS		
Investment income		
Interest	$ 10,229,525	$ 12,527,579
Dividends	7,310,682	1,842,966
	17,540,207	14,370,545
Market value increase (decrease)	(6,281,258)	28,624,772
Contributions (Note 5)		
Employees' contributions	8,081,918	7,320,934
Employers' contributions	8,081,918	7,320,934
Transfers from other plans	2,540,487	123,793
Refund repayments	197,017	157,525
Purchased service	313,831	264,382
Government contribution toward unfunded liability (Note 5)	5,926,605	5,926,605
	25,141,776	21,114,173
Total increase in assets	36,400,725	64,109,490
DECREASE IN ASSETS		
Administrative expenses	1,339,920	1,182,440
Benefits paid	15,773,982	15,054,663
Refunds	204,701	258,305
Transfers	1,428,526	1,476,337
Total decrease in assets	18,747,129	17,971,745
INCREASE IN NET ASSETS	17,653,596	46,137,745
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	373,991,250	327,853,505
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	$391,644,846	$373,991,250

(The accompanying notes are an integral part of these financial statements.)

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2001

1. Description of Plan

The following description of the Civil Service Superannuation Plan is a summary only. For more complete information, reference should be made to the Civil Service Superannuation Act.

a) General
The Plan is a contributory defined benefit plan covering permanent, probationary, provisional and executive employees as defined in the Civil Service Act. In addition, the plan covers employees receiving disability payments under the Employees Long Term Disability Plan. Under the Plan, employees and the employer make equal contributions amounting to 6.95% on that part of salary on which Canada Pension Plan contributions are made and 8.75% on salary when Canada Pension Plan contributions are not required.

b) Pensions
Pensions payable are based on the number of years of service times 2% of the best three years' average salary. Eligibility is subject to age and years of service criteria.

c) Survivors' Pensions
A survivor pension is paid to a spouse and allowances are provided to dependent children of a member who has at least five years of service.

d) Death Refunds
A death refund is payable to the personal representative of an employee where the total of payments to survivors are less than the employee's contributions.

e) Withdrawal Refunds
Upon application, withdrawal refunds of the employee contributions are payable when a member ceases to be employed in the Civil Service.

f) Transfers
Reciprocal transfer arrangements with other pension plans provide for the transfer of contributions and periods of service.

g) Income Taxes
The plan is a Registered Pension Plan as defined in the Income Tax Act and is not subject to income tax.

2. Summary of Significant Accounting Policies

a) Basis of Presentation
These financial statements are prepared on the going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity independent of the Province and plan members. They are prepared to assist plan members and others in reviewing the activities of the Plan for the fiscal period but do not portray the funding requirements of the Plan or the benefit security of individual plan members.

b) Investments are stated at market value, with the exception of Real Estate Investments which are valued at cost, as reported by the custodian of the Province of Prince Edward Island Master Trust as of March 31, 2001.

3. Investments

In April 1994, the investments of the Civil Service Superannuation Fund, MLA Pension Fund, and the Teachers' Superannuation Fund were consolidated into the Province of Prince Edward Island Master Trust. The Pension Plan for the Members of the Legislative Assembly became a participant in the Master Trust in February 1995. Units are held by each of these funds in the Master Trust. As of March 31, 2001 there were 602,064.278 units held in the Province of Prince Edward Island Master Trust, of which Civil Service Superannuation Fund held the following:

Units held	346,274.416
Market value per unit	$ 1,127.87
Total market value held	$390,551,887

Investments of the Province of Prince Edward Island Master Trust are as follows:

Canadian T-Bills	$ 18,244,082
Other liquid assets	799,018
Bonds, debentures and notes	248,274,455
Canadian equity securities	272,939,161
Foreign equity securities	127,669,498
Accrued income receivable	4,772,216
Real estate	6,350,733
Total	$679,049,163

3. Investments continued ...

The investment of $679,049,163 include amounts which the five Master Trust Fund managers have invested in their own pooled funds. The March 31, 2001 market values of these investments are as follows:

Sceptre Investment Counsel Limited	$ 56,864,598
Beutel Goodman & Company Ltd.	26,165,685
McLean Budden Limited	41,991,281
Newcastle Capital Management Inc.	40,000,963
Templeton Management Limited	45,314,437
Total	$210,336,964

4. Obligations for Pension Benefits

The present value of accrued pension benefits was determined using the projected benefit method prorated on service and best estimate assumptions. An actuarial valuation was done as of April 1, 1999 by Morneau Sobeco. The actuarial present values of benefits as at April 1, 1999 and the principal components of change from the previous actuarial valuation as at April 1, 1996 were as follows:

Actuarial present value of accrued pension benefits - April 1, 1996	$292,126,000
Liability adjustments (data corrections)	9,071,000
Actuarial present value of accrued pension benefits - April 1, 1996 (after adjustments)	$301,197,000
Interest on actuarial present value of accrued pension benefits	78,430,000
Actuarial present value of benefits accrued in the intervaluation period	31,725,000
Interest on present value of benefits accrued in the intervaluation period	3,978,000
Benefits paid	(44,000,000)
Interest on benefits paid	(5,527,000)
Gain re changes in actuarial assumptions	475,000
Net experience loss	1,296,000
Actuarial present value of accrued pension benefits at April 1, 1999	$367,574,000

The economic assumptions used in determining the actuarial value of accrued pension benefits were developed by reference to expected long-term market conditions. Significant actuarial assumptions used in the valuation were:

Asset rate of return	7.9% per annum
Basic salary escalation rate (excluding promotional increases)	4.0% per annum
Pension cost of living increases	3.25% per annum

The actuarial net asset value used in the valuation was $328,023,000.

5. Funding Policy

In accordance with the Civil Service Superannuation Act, employees are required to contribute as described in Note 1(a). The employer matches employee contributions to the Fund. Under Section 5 of the Civil Service Superannuation Act, payments out of the Fund are guaranteed by the Province of Prince Edward Island. The most recent actuarial valuation prepared by Morneau Sobeco disclosed an unfunded liability as at April 1, 1999 of $39.551 million. The unfunded liability amount of $39.551 million does not include an allowance for the present value of the future contributions noted below. The present value of remaining special contributions required by the Civil Service Superannuation Act as at April 1, 1999 is $28,558,000. If this present value had been considered for the actuarial valuation balance sheet, the unfunded liability would be $11,001,000.

As of March 31, 2001, the estimated unfunded liability of the Fund is $64,281,000. This estimate does not include an allowance for the present value of the remaining special contributions. If the present value of the remaining special payments had been considered, as of March 31, 2001, the fund would have an estimated unfunded liability of $43,780,000.

For the purpose of reducing the unfunded liability of the Fund, an amendment to the Civil Service Superannuation Act requires the Lieutenant Governor-in-Council to pay $63.35 million into the Fund in accordance with the following schedule:

April 1, 1995	$11.6 million
April 1, 1996	5.75 million
March 31, 1998*	5.75 million
April 1, 1998	5.75 million
April 1, 1999	5.75 million
April 1, 2000	5.75 million
April 1, 2001	5.75 million
April 1, 2002	5.75 million
April 1, 2003	5.75 million
April 1, 2004	5.75 million

* An amount equal to the revenue that would otherwise have been earned for the period April 1, 1997 to March 31, 1998, on the contribution for the 1997-98 fiscal year that is deferred to March 31, 1998, shall be paid in seven equal installments commencing on April 1, 1998.